

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

BAC3664 – ACCOUNTING THEORY

(All sections / Groups)

04 JUNE 2018

9.00 a.m – 12.00 p.m

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 4 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

- a. What is the difference between developing a theory by induction and developing a theory by deduction? (10 marks)
- b. Discuss both advantages and challenges of a ‘one size fits all’ approach to international standards and conceptual framework? (8 marks)
- c. Briefly discuss the argument for and against the technical benefits of accounting conceptual framework. (7 marks)

(Total: 25 marks)

QUESTION 2

- a. It is argued by some researchers that even in the absence of information organizations have incentives to provide credible information about their operations and performance to certain parties outside the organization, otherwise the costs of organization’s operation would rise. This argument is supported by a perspective that even in the absence of regulation, organization would still be motivated to disclose both good and bad news. Discuss this view and support your argument with the notion of “market for lemon”. (5 marks)
- b. The proponents of the “pro-regulation” might argue that regulation is necessary to ensure the ethical treatment of various stakeholders, potentially as the results of market failure whilst the proponents of “free- market” perspective on the other hand argue that market are efficient enough to discipline the managers. Provide **FOUR (4)** points to discuss the arguments from both perspectives. (8 marks)
- c. What assumptions are made about motivation of the regulators in the following?
 - i. The public interest theory of regulation.
 - ii. The capture theory of regulation.
 - iii. The economic interest theory of regulation.(12 marks)

(TOTAL: 25 marks)

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QUESTION 3

- a. Early positive accounting research investigated evidence of share price changes as a result of the disclosure of accounting information. However, such research did not explain why particular accounting methods were selected in the first place. How did Positive Accounting Theory fill this void? **(10 marks)**
- b. Capital market research explores the role of accounting and other financial information in equity markets. That is, it investigates how the disclosure of particular information influences the aggregate trading activities taken by individuals participating within capital markets. Nonetheless, if an organization releases its earnings figure for the year and there is no share price reaction how might capital market researchers explain this finding? **(5 marks)**
- c. There are many other factors would have an impact on the nature of any potential share reaction. Discuss the following;
- Unexpected changes in accounting earnings created by unexpected increases in revenues rather than unexpected reductions in expenses. **(5 marks)**
 - The capital market impact of relative magnitudes of cash and accruals. **(5 marks)**

(TOTAL: 25 marks)**QUESTION 4**

- a. Why do companies increasingly report non-financial information such as social reporting, sustainability reporting and risk reporting? **(10 marks)**
- b. Refer to the statement below:

"The long standing unresolved controversy about which measurement attribute to adopt—particularly between historical- price and current-price measures—and the unresolved puzzle of unit of account are likely to make measurement one of the most challenging parts of the project' (The FASB and IASB ,2005, p.12)

- Define Exit Price Accounting (EPA) and how EPA may potentially resolve the measurement attribute issues. **(5 marks)**
- Discuss the critics of EPA's profit concept. **(10 marks)**

(TOTAL: 25 marks)**End of questions**